



June 16, 2008

Performance and Compensation Committee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Ladies and Gentlemen:

As the Investment Committee's consultant for the Alternative Investment Management (AIM) Program, Pension Consulting Alliance (PCA) has been asked to comment on the proposed revisions to the performance benchmark and its application in AIM's incentive compensation measurement.

Removing the weighting methodology from the benchmark calculation results in a better overall framework for comparison to AIM's actual performance. It will now include sector and manager selection which is a more complete basis for evaluating performance and computing incentive compensation.

The proposed change comparing AIM's performance to others in Venture Economics Young Fund Universe is an incremental step in the phased evolution of AIM's efforts to link its incentive compensation program with its strategic goal to be considered the investor of choice. We understand that this step raises the bar considerably from what was used previously.

PCA is in agreement with both of these modifications.

Pension Consulting Alliance